

CESC Index Report for August 2019



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Highlights

- CES Innovative Pharmaceuticals Index (CESIBT) up 9.2 per cent following the inclusion of innovative drugs in the Drug Catalog for Medical Insurance
- Thanks to increasing demands for Mainland manufactured chips and semiconductor parts, relevant companies showed outstanding performance. CES China Semiconductor Index (CESCSC) soared 7.7 per cent
- Net capital inflow to the Mainland China reached RMB13.2 billion in August. CES Foreign A-Shares Choice Index (CESFAC) edged up 2.6 per cent
- Announcement by the MSCI to raise the inclusion factor of A shares in its indexes from 10 per cent to 15 per cent
- Record low RMB exchange rate in 11.5 years as a result of Sino-US trade tension
- Further recognition of Shenzhen as a Pioneering Demonstration Zone fosters financial cooperation between Shenzhen and Hong Kong

I. Performance of CESC indices

Despite escalating Sino-US trade tensions taking toll on the China-Hong Kong stock market broad-based indices, certain thematic indices managed to maintain strong.

A number of leading Chinese pharmaceutical companies announced their interim results for the first half of 2019, which showed rapid growth in the sales of innovative drugs. In addition, the National Healthcare Security Administration has included various types of innovative drugs in the latest version of the Drug Catalog for Basic

Medical Insurance. These contributed to a surge of 9.2 per cent in the CES Innovative

	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES Innovative Pharma	9,222.06	9.2%	6.9%	1.34
CES China Semiconductor	4,561.78	7.7%	9.4%	0.82
CES Foreign A-Shares Choice	2,739.02	2.6%	5.6%	0.46
CES SCA Industry Top	4,242.42	1.1%	5.3%	0.20
CES HK Biotech	6,108.48	0.8%	7.6%	0.11
CES SCHK Moat	3,477.09	-0.5%	7.9%	-0.06
CES A80	7,819.56	-1.0%	5.1%	-0.19
CES 280	5,724.58	-1.2%	5.1%	-0.23
CES P Elite	5,444.24	-1.4%	7.0%	-0.20
CES 120	6,631.93	-1.7%	4.6%	-0.38
CES 300	4,419.14	-2.6%	4.6%	-0.57
CES Greater Bay Area Select	2,193.29	-2.7%	5.8%	-0.48
CES OBOR	1,563.98	-2.7%	5.0%	-0.55
CES HKMI	7,113.33	-5.1%	5.2%	-0.97
CES SCHK Growth	4,975.63	-5.5%	7.9%	-0.70
CES SCHK Value	4,214.57	-6.6%	7.8%	-0.85
CES SCHK E&L	3,406.80	-6.9%	8.1%	-0.84
CES SCHK 100	5,151.79	-7.4%	5.9%	-1.24
CES SCHK 50	2,810.72	-7.5%	5.5%	-1.36
CES High Yield	3,494.57	-7.7%	7.4%	-1.05
CES SCHK HYLIV	2,789.95	-7.8%	5.2%	-1.52
CES REIT	3,487.74	-8.7%	5.3%	-1.63
CES G10	4,738.46	-8.9%	9.0%	-0.99

Source: CESC and Wind; data as of 30 Aug 2019

Pharmaceuticals Index (CESIBT).

Huawei, a communications equipment manufacturer in China, was forbidden by the United States to use relevant US technologies in production. The ban could potentially drive up the sales of Chinese semiconductor makers. A number of semiconductor companies announced shining results for the first half of 2019, as a result of increasing demand for home made parts. **CES China Semiconductor Index (CESCSC) soared 7.7 per cent.**

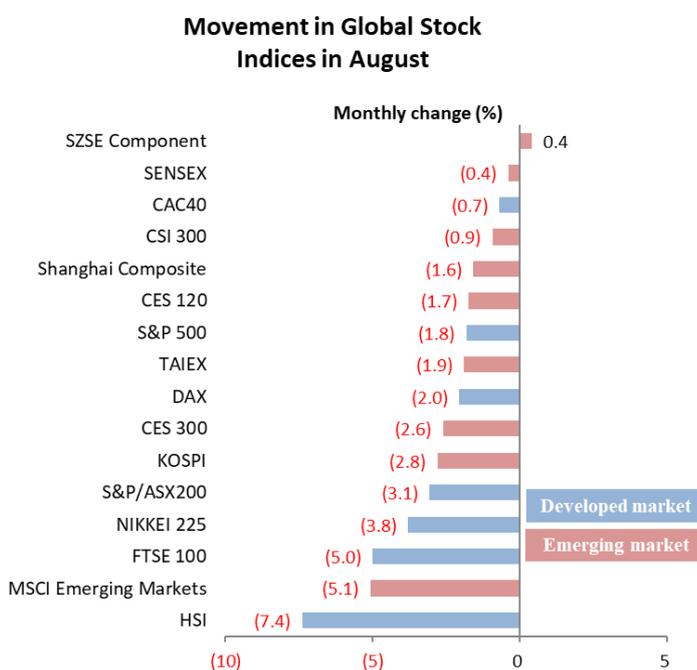
Northbound net capital inflow totaled RMB13.207 billion in August, slightly up from RMB12.025 billion in July. **CES Foreign A-Shares Choice Index (CESFAC) edged up 2.6 per cent.**

Macau announced that its gaming revenue flopped for the second month to MOP24.262 billion in August, down 8.6 per cent year-on-year, which was below expectation and the largest slump since August 2016. **The CES Gaming Top 10 Index (CES G10) slid 8.9 per cent.**

II. Other stock indices

Volatilities continued to shake global stock markets. The FTSE 100 Index dropped 5 per cent whereas the MSCI Emerging Markets Index fell 5.1 per cent.

British Prime Minister Boris Johnson has repeatedly vowed to complete his country's divorce from the European Union by 31 October, with or without an agreement. As the EU is not likely to reopen any negotiations with the UK, a 'hard Brexit' has become a likely prospect. Against this backdrop, the FTSE 100 index fell 5 per cent.



Source: CESC and Bloomberg, as of 30 August 2019

Concerns over the escalation of Sino-US trade tension weighing on investor sentiment and slowing down global growth, in particular stock markets and currencies in the emerging market. The market is also worried about having a left-wing government in Argentina after the election, for fear of the ongoing reforms being halt, default in debt repayment triggered, the collapse of financial market, and a crash in the Argentine peso and equities. MSCI

Emerging Markets Index plunged as much as 5.1 per cent.

Amid a gloomy economic outlook, India's PMI slid from 52.5 to 51.4 in August, representing a slow expansion at a record of 15-month low. The country announced earlier a mere 5 per cent growth in GDP for the April-June quarter, the slowest in six years and falling short of market expectation. India Sensex Index slipped 0.4 per cent.

Slowing growth across Asia Pacific and Europe continues to impact South Korea's crucial electronics and automobile industries. As a consequence, export orders continued to drop. Japan's tightened curbs on exports to South Korea also weighed on the Korean technology industry. KOSPI Index slid 2.8 per cent.

In the US, recession fears grew over an inverted yield curve. US stocks saw the most erratic month in eight years with soars and slumps amid mixed market sentiments in August. The S&P 500 fell 1.8 per cent.

III. China-related investment activities offshore

MSCI announced a raise of inclusion factor of A shares in its indices from 10 per cent to 15 per cent

Global index compiler MSCI announced its August quarterly review, that amongst other things, the inclusion factor of large-cap A shares in its indices would be lifted from 10 per cent to 15 per cent, effective after market close on 27 August. After the change, more than 200 large cap A shares were included and accounted for 7.8 per cent of the market capitalization of the MSCI China Index, up from around 5.2 per cent.

RMB hit new lows in 11.5 years amid concerns over escalating Sino-US trade tensions

The trade tensions between the US and China is heating up again, as US President Donald Trump announced plans to impose tariffs ranging from 15 to 30 per cent on Chinese products. RMB weakened below seven to the US dollar in both onshore and offshore markets in early August, further depreciation is also expected. Intensified Sino-US trade tensions led to a drop of almost 4 per cent in both onshore and offshore RMB markets in August, with CNY/USD hitting new lows in 11.5 years.

Upgrade of Shenzhen as a Pioneering Demonstration Zone helps further strengthen financial cooperation between Shenzhen and Hong Kong

The Chinese government recently issued the Opinions on Supporting Shenzhen in Building a Pioneering Demonstration Zone for Socialism with Chinese Characteristics (the

“Opinion”) which drew the public’s attention both at home and abroad. The Opinion contains proposals of promoting the interoperability with Hong Kong and Macau financial markets and mutual recognition of financial (fund) products, further strengthening the financial cooperation between Shenzhen and Hong Kong as the two core cities in the Guangdong-Hong Kong-Macau Greater Bay Area and providing a more extensive coverage for the mutual recognition of financial products between the two places.

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